the MANAGEMENT REVIEW

the month's best in business reading . . .

DECEMBER, 1947

AMONG THE FEATURES

THIS ISSUE INCLUDES INDEX TO VOLUME XXXVI

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- PRODUCTION
- OFFICE MANAGEMENT
- MARKETING
- FINANCE
- INSURANCE
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- *BOOKS OF THE MONTH*

AMERICAN MANAGEMENT ASSOCIATION

NEEDED—

Informed Financial Planning

AMA FINANCIAL MANAGEMENT CONFERENCE

HOTEL BILTMORE, NEW YORK • JAN. 15-16, 1948

This is a critical moment in corporate financial management. Tomorrow industry's stout reserves may be insufficient for the job they should do. Tomorrow inflated inventories may be areas of jeopardy. Tomorrow business volume may be too low to support current break-even points.

Tomorrow may be too late for planning! *That* must be done now—and it must be *informed* planning.

It is to assist in such planning that AMA has called this conference. Companies throughout the country, representing virtually every major industry, have reported on their financial problems to the AMA Finance Council. On the basis of these reports, a program has been developed that will provide guidance on key phases of financial management.

To non-members who read this announcement, AMA regrets to say that the conference will be restricted to members of the Association. The decision to follow this policy in connection with all future AMA conferences was reached in view of the fact that many of the Association's conferences have been overcrowded by the attendance of non-members.

Some of the Highlights:

FINANCIAL CONSERVATION TO MEET NEW CONDITIONS

DEPRECIATION RESERVES AND POLICIES

VALUATION OF INVENTORIES

A PROGRAM FOR TAX REVISION

EUROPEAN ECONOMICS, THE MARSHALL PLAN, AND AMERICAN BUSINESS

"BREAK-EVEN" POINTS

OBTAINING NEEDED WORKING CAPITAL

A FORECAST OF ECONOMIC DEVELOPMENTS

THE OUTLOOK FOR INTEREST RATES

SALARY EXPENSE CONTROL

HOW TO FORECAST

BUDGETARY CONTROL

AMERICAN MANAGEMENT ASSOCIATION
330 WEST 42nd STREET, NEW YORK 18, N. Y.

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the MANAGEMENT REVIEW

Volume XXXVI — No. 12

DECEMBER, 1947

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GENERAL MANAGEMENT...

Workers Speak Their Minds

MISUNDERSTANDINGS about the Taft-Hartley Act have placed a heavy strain on human relations in industry. To ease that strain, it is necessary to understand the worker's aims, desires, and beliefs.

Factory has just completed a national study of worker reaction to the Taft-Hartley Act and its probable political consequences—the first such study conducted since the law has had time to make itself felt. This survey reveals one fact of prime importance to management: *There is strong worker objection to the Taft-Hartley Act*—but knowledge and understanding can change worker opinion.

The trend of worker opinion as indicated by the survey can be summarized as follows:

On the Taft-Hartley Act—

1. Most workers admit they know little or nothing about the Taft-Hartley law . . . but a majority (61 per cent) say they want changes or repeal . . . even though they have few specific criticisms.

2. As yet only one worker in ten has been affected by the Taft-Hartley law . . . but one in three expects to be worse off under this new law.

3. Workers do not expect the Taft-Hartley law to be the chief cause of strikes in 1948 . . . nor do they expect so many strikes as in 1947.

On labor in politics—

4. Political activity by unions is gaining worker acceptance . . . but workers don't approve of using union funds to support such activity.

5. Only one out of five workers sees organized labor as having too much influence on the Truman Administration . . . but three out of five would disapprove of a "labor party" government in America . . . nationalization doesn't appear so attractive as it did two years ago.

6. Workers are definitely undecided as to what political leader is the "best friend" of labor.

7. One out of five workers would switch his vote, if necessary, to support a union-endorsed candidate . . . but so far Senators who backed the Taft-Hartley law have lost only 3 per cent of the worker votes they had when elected.

AFL and CIO campaigns to propagandize members about the law have made a ripple, but not a splash. Union workers claim to know more about the law than do non-members, but independents' members register about the same awareness as do AFL and CIO members.

Of those who said they had been directly affected by the new labor law, *Factory* asked: How? Few answers were specific, and even among the generalities the only one that recurred frequently was "the company has got tough." Other mentions: "pay cuts," "forced union to strike," "made striking more difficult," and "morale down."

The fact that an even half of *all* workers expect to be as well or better off under the new law stands in marked contrast to the fact that 61 per cent want the law changed or repealed.

Worker replies to these questions add to one indication: Most workers

For publishers' addresses or information regarding articles or books, apply to AMA headquarters.

still base their opinions of the Taft-Hartley Act on what they have been told by unions. There is still time, therefore, for management to do a constructive job of informing employees of the facts about the Taft-Hartley Act and of proving, by example, that it is neither a "union busting" nor a "slave labor" law.

As workers see it, the pressure of living costs still figures to be the prime strike cause in 1948. Union and non-union workers differ little in their opinions of strike causes, except on the question of the Taft-Hartley Act. Twenty-four per cent of union members foresee the law as a principal cause of strikes; only 10 per cent of non-union workers take that view.

Thirty-five per cent of the workers polled expect more strikes in 1948; 44 per cent, fewer; 21 per cent indicated they "don't know."

Sentiment for union-sponsored political parties is strongest among members of CIO unions, with 21 per cent favoring this type of action. AFL and independent union members are still less enthusiastic on this issue; votes of 14 and 13 per cent, respectively, do not differ significantly from the average for all workers. Among non-union workers there is a clear majority, 57 per cent, who feel that unions should "stay out of politics."

But even among CIO members less than a majority, 46 per cent, feel that unions should use their funds to support political activity. And the political assessment voted by the AFL convention was against the wishes of the 51 per cent of AFL members who voted against such use of union funds.

Of *all* workers, 61 per cent said they believed they would be worse off under a labor government. The British experiment in socialization, therefore, apparently hasn't sold workers on the idea that it would work over here. While 15 per cent think British workers in nationalized industries are better off than before, only 10 per cent of American workers think they would be better off under a labor government.

A whopping 45 per cent of all workers polled don't know what political leader is the best friend of labor. In terms of election-year politics, this means that workers are "shopping around," that anything can happen. Nobody is going to carry the "labor vote" on the basis of past performance.

Twenty-one per cent of all the workers said they would switch their votes to support a union-endorsed candidate. This percentage constitutes a fairly small minority, but it represents probably 3,000,000 votes at the beck-and-call of union leaders. The probable direction of union endorsements (if any) in 1948, however, makes that figure take on a far different complexion: 72 per cent of those who said they would switch voted for Roosevelt in 1944. Only 7 per cent of those who said they would change voted for Dewey in 1944; the remaining 21 per cent of "would change" workers didn't vote in the last Presidential election.

Of all those who indicated they voted for Senate supporters of the Taft-Hartley Act when they were last up for election, only 6 per cent said they would now vote against them—and this loss was partly offset by a 3 per cent switch of votes to these Senators. Of those who voted for Senate *opponents* of the Act, 5 per cent have now switched *away* from them despite their opposition to Taft-Hartley.

The only possible explanation for the fact that both backers and opponents of the Taft-Hartley Bill have lost support among workers is that issues far stronger than labor legislation are at work on the electorate.

Factory Management and Maintenance, November, 1947.

The Shadow of Dead Men's Reasoning

By JAMES F. BELL
Chairman of the Board
General Mills, Inc.

MAN possesses a curious mixture of superstition and reverence for the past. He is prone to do things in the same old way in which they have always been done. The traditional way seems to accomplish what he desires; his father did it that way, and his father before him. We live in the shadow of past reasons and reasoning to a far greater extent than we realize, and to a much greater extent than we should.

This sort of philosophy too often impedes the success of demonstrated improvements. The time lag between discovery and acceptance is long, and the road of the innovator has always been hard and rocky. Galileo almost suffered martyrdom. Newton's brilliant deductions engaged him in bitter controversy with the leading scientists of his day. It took 200 years to substantiate William Harvey's conclusions about the circulation of blood. More recently, the Einstein theory found acceptance only in experiments with the action of uranium.

We have seen great changes in the corporate life of this nation over the past half-century. For the most part, in the development of large industrial enterprises we have witnessed an evolution from private to public ownership. American Telephone and Telegraph, for example, has over 695,000 stockholders, nearly half of them women. Nevertheless, changes in corporate organization in many instances have not followed this evolution, and the shadow of the past still rests heavily upon our corporate life.

We must appreciate the fact that the corporation no longer represents the aggregate property rights of the owners, but is an essential part of our national economy and responsible to it and to the public it serves.

RESPONSIBILITY OF DIRECTORATES

In modern corporate life—in theory, at least, if not in practice—the Board of Directors comprises the chosen representatives of the owners. The character, composition, and control of these Boards thus assume entirely new significance—both to the owners and to the public at large. Yet adapation to the new order in this respect is not so complete or far-reaching as is desirable in the public interest.

Management is reluctant to relinquish the domination it possessed under wholly private ownership, and in some instances this control is maintained through Boards consisting entirely or in majority of management personnel. It could be argued that such Boards are desirable since their members are intimately associated with the business, are familiar with all its affairs, and can, with proper freedom, operate intelligently for the welfare of the owners. It would appear difficult, however, for the members of such Boards to override the chief executive so long as he controls their positions.

There are numerous large corporations which have Boards composed wholly or in part of non-management members. While there are many conscientious outside directors who devote considerable time and thought to the affairs of the companies they serve,

Adapted from an address before the International Congress of Delta Sigma Pi Fraternity.

desirable Board members are all too frequently busy men who lack time to acquaint themselves sufficiently with the intimate affairs of the firm. Their positions are honorary in character, and, because they lack intimate knowledge, they must rely on the word of management and support its recommendations.

The position of director must be magnified beyond its present honorary state, and the small attendance fee directors receive increased to a point where it will create a sense of deeper obligation that will impel directorates to devote time and thought consistent with their remuneration.

Among the Board's many responsibilities are the all-important choice of management and the formation of policies. But performance of these *per se* is not sufficient; the Board should possess proper yardsticks for measuring management's efficiency and for determining whether the policies formulated are carried out in practice.

At present the position of Chairman of the Board is an anomalous one. It may be purely honorary—a reward to some superannuated, old fluff-doodle dodo who has been kicked up the backstairs to get him out of the way! Again, the Chairman may be the chief executive and administrative officer, functioning wholly independently, with the president of the company a mere figurehead. Or he may be the chief executive and administrative officer functioning through the office of the president. There seems to be no accepted practice for the functioning of this office.

The position of Chairman of the Board should be one of genuine importance. The head of the Board can be the medium through whom the Board maintains daily contact with management. While he would not be part of management, it would be his duty to see that the procedures and methods of management live up to the expectations and policies of the Board and its interpretation of the best interest of the owners.

RESPONSIBILITY OF THE COMPTROLLER

It is possible further to strengthen the functioning of the Board through the office of the Comptroller, who should be appointed by the Board, be responsible to it, and hold office at its disposition. This provides the Board with "eyes and ears" through which to evaluate the performance of the various departments as reflected through the accounting of the company. In addition, it centers in the Comptroller the responsibility for interpreting the functions of the business so that the Board can measure management's conformance with its desires and policies.

The Comptroller's department impinges upon all other departments of the business. He should not only be aware of the actions of the Board but, to interpret these properly, should also understand the thinking of the Board. This is impossible unless he is permitted to attend all meetings of the Board, to hear all the arguments underlying the formation of policies. Similarly, he should be permitted to attend all conferences of the Executive Committee and all staff and departmental meetings, so that he may be equally well acquainted with the thinking of management.

DEARTH OF WELL-ROUNDED MEN

As industry expands, it becomes increasingly departmentalized. With departmentalization comes the need for specialists. With specialization comes a dearth of well-rounded men qualified for executive and administrative succession.

This situation can be largely met by a change in the attitude with which the chief executive and the departmental specialists address their specific responsibilities. If department heads are encouraged to—or of their own volition—interpret their jobs not alone in terms of their specific responsibilities but in terms of the general welfare of the enterprise, we shall have a new order of a most promising character. If, for example, the head of a company's engineering department, having received a request for a set of specifications for a new facility, attempts to interpret these not only in the light of engineering but in terms of general company welfare—perhaps he can point out needs of other divisions of the business which, in his opinion, should take precedence, or he may feel the plans for the new facility should be postponed pending study of new technological developments—he can break down the walls of departmentalization that isolate him from the general picture; he can feel himself an integral part of the whole.

Such a changed concept depends largely upon the attitude of the over-all management. If the Board possesses proper character and ability, however, it will not have to contend with managerial resistance to constructive changes aimed at strengthening the organization.

10 MILLION CENTERS OF INITIATIVE

Professor Slichter of Harvard has pointed out that: "The American business economy has nearly 10 million business enterprises where innovations may be initiated, where experiments may be tried. Our economy operates under some 10 million separate private business budgets. No regimented economy can hope to compete in dynamic drive with an economy which possesses nearly 10 million independent centers of initiative!"

Many of the things we now enjoy would have been deemed impossible just a few years ago. Yet there are those today who are ready to say, of proposed innovations, "It can't be done!"—"Impossible!" Charles Kettering answered: "The impossible merely takes a little longer."

Of course, specialists are essential in this day and age, but the chief danger of specialization is loss of perspective. We tend to circumscribe our field of thought, to take only the purely technical view of our responsibilities. Unless we guard against this tendency, we can easily repeat the error of the three blind men and the elephant: One grasped his trunk and reported that the elephant was like a snake; the second felt his side and said it resembled a wall; the third touched his leg and said it resembled the trunk of a tree!

Let us not permit our view of the broad management job to become similarly distorted. It is not enough to be familiar with every aspect of our particular task; we must know something of all phases of the enterprise, and the relation of our own job to them. Only then shall we perceive our own function in its true perspective.

• TODAY PEOPLE **in high income brackets represent a declining market. Now there are only 67 per cent as many consumer units in the $10,000-$15,000 class as there were in 1935-36, and only 17 per cent as many in the over-$15,000 class.**

***—Sales Management* 9/15/47**

A Doctor Looks at Executive Deaths

SINCE the 18th century, life expectancy has increased from 39 to 57 years, largely through the conquest of such diseases as smallpox, typhoid fever, tuberculosis, plague, infantile dysentery and diphtheria, and more recently pneumonia and streptococcic infections. With the longer life span, however, has come an increase in the number of deaths due to hypertension and arteriosclerosis. While this is generally considered a natural concomitant of the population's increasing age, it is possible that the fast tempo and the frustrations of contemporary living are partially responsible.

The business man's greatest enemy is cardiovascular disease. He loses his most valued men in their prime from "heart attacks," "acute indigestion," "stroke," and high blood pressure. He will continue to do so until the usual acumen of business executives enlists them as active promoters of the study and research so urgently needed to combat these scourges.

Death certificates show that high blood pressure and arteriosclerosis kill about 500,000 people in this country annually, and insurance companies estimate that by 1960 the yearly toll will rise to 1,200,000. Put in another way, 50 out of every 100 children born today will die of these diseases—three and one-half times as many deaths as from cancer, 10 times as many as from tuberculosis, 1,000 as many as from infantile paralysis. The unadorned numbers are appalling but convey nothing of the associated human suffering. Strangely, the public, far from appalled, either is unaware of this dread mortality or accepts it as an act of God.

Hypertension and arteriosclerosis work quietly, progressively, and show themselves only late in their course. They are not, as is commonly supposed, merely the accompaniments of getting old.

A multiplicity of names and conceptions of the nature of these diseases has served to confuse people, including many physicians. Thus, high blood pressure, or hypertension, is often the cause of hardening of the arteries, i.e., "arteriosclerosis." As a consequence of arteriosclerosis, injury in at least three vital areas manifests itself; namely, apoplexy or stroke in the brain, failure of the heart and obstruction of its circulation (coronary thrombosis), Bright's disease (nephritis) of the kidneys.

Broadly, all these conditions are grouped as "cardiovascular renal" diseases. But here is where most of the confusion arises. Records of deaths, instead of citing hypertension and/or arteriosclerosis, create an altogether erroneous impression by listing parts of the whole as separate entities rather than as the causally associated states they usually are. Thus, apoplexy may be listed as the cause of death, but the disease which caused the apoplexy may be hypertension or arteriosclerosis or both. Similarly "failure of the heart or kidneys" may be but a manifest of the now extinguished blood pressure.

Much has been learned which will aid in preventing high blood pressure or in ameliorating it if present. Almost nothing is known as to how to prevent arteriosclerosis. While this discussion cannot attempt to cover these subjects adequately, the following six rules are suggested:

1. Rest one-half hour at noon and

before supper; go to bed by 10:30 or 11:00. Fatigue is your worst enemy.

2. Cultivate equanimity. When you can contribute something to your social environment not easily duplicated by others, then participate; otherwise, sit on the banks and enjoy the beauty of life as it flows by.

3. Eat a balanced diet regularly but avoid obesity like the pest.

4. Learn about your disease—what it is and under what handicaps you must operate.

5. Use the minor vices in moderation unless there is special indication why any one of them, such as tobacco, should be avoided.

6. Contribute to and enjoy life by giving unto others.

Business men should understand high blood pressure and arteriosclerosis, not fear them. Their essential nature is not hard to grasp. Understanding puts a tool of vital importance into the hand of the otherwise helpless victim.

It is important for business men to realize that danger signals seldom appear until late in the course of the disease. Thus severe headache, loss of weight, shortness of breath, and heart pain occur late, not early. For the most part, the early signals are too subtle for the layman to detect unaided; thus the annual physical examination is of inestimable value.

By Irvine H. Page, M.D. *American Business,* July, 1947, p. 23:2.

Grants-in-Aid Available for Management Research

The American Academy of Arts and Sciences announces that income from its Permanent Science Fund will be disbursed as grants-in-aid in support of research projects in the fields of Scientific Business Management, Manufacture and Commerce, Engineering, Psychology, Education, Economics and Sociology, Mathematics, Physics, Chemistry, Astronomy, Geology, Geography, Zoology, Botany, Anthropology, History and Philology, Medicine, Surgery, Agriculture, or any other science of any nature or description.

Applications for grants-in-aid are receivable on multiple forms which will be supplied upon request to the chairman of the Permanent Science Fund Committee and are considered by the Committee on March 1 and October 1.

Requests for further information about conditions governing the grants should be addressed to: John W. M. Bunker, Chairman, Permanent Science Fund Committee, Massachusetts Institute of Technology, Cambridge 39, Mass.

Group Prejudice—Cancer of the Mind

CANCER IS A KILLER. Group prejudices can be killers, too. The little country club discriminations, the lighthearted but taunting jest behind the back, may seem to some relatively harmless. They aren't, because they sear the soul of the one injured and corrupt the soul of the offender. But even if they were harmless, there would still be little cause for complacency, for nothing in this dynamic world is static. Such things will simply not stay put. According to the law of nature, they either expand or contract, grow or wither. And they won't contract or wither by themselves. Like cancerous cells, they tend of their very nature to multiply; and they can be stamped out only by putting all our knowledge, all our goodwill, all our resources, into the fight.

OFFICE MANAGEMENT...

An Office Safety Campaign

"THINK! Is it Safe?" Supplemented by the use of such slogans as this, the American Brake Shoe Company's safety campaign, waged largely through supervisory personnel and the firm's employee publication, *Brake Shoe News,* has substantially reduced accidents in all offices and plants of the company.

Cash awards for safety slogans, cartoons, and limericks focus attention on the monthly column, "Safety News and Views," which the supervisor of safety regularly features in *Brake Shoe News,* and induce employees to think constructively about this important subject. Comment on timely phases of safety—fire prevention, home hazards, safe driving—and occasional letters from employees as well as contest news and clever entries are included in the column. Touches of human interest and humor make its protective recommendations better remembered and heeded.

Tying in most of its contests with those of the National Safety Council, which offers prizes of $100, $50, and $25, the Brake Shoe safety department forwards all entries to the national organization, after selecting the winner of its own award—usually $10.

Christmas cards extending greetings from the safety department to employees, with a message bearing on accident prevention, are enclosed in holiday issues of *Brake Shoe News.* "For a Merrier Christmas—Avoid Holidaynger" was the appropriate caption of one card listing a dozen precautions against hazards of the celebration and tree-lighting.

Another handsome greeting card stressed the contribution of employees' safety efforts toward attainment of the company's twin objectives of making each of its plants "A Better Place to Work" and "A Better Neighbor in the Community."

Vigilant planning by the safety department to insure all possible physical measures to control hazards goes hand in hand with its educational work.

Careful arrangement of furniture in offices eliminates accidents due to tripping over chairs, desks, and files that are awkwardly placed. Swivel chairs are inspected to make certain that bearings are all right. The condition of hat racks is noted, for if these are loose they may, when weighted with clothing, fall on someone. Electric fans are installed on walls at a height that puts them out of reach of fingers. Doors are equipped with controls so that they cannot come back too quickly, inflicting bumps and bruises.

Hazards are lessened in store-rooms where supplies are kept by providing stepladders sufficiently high to reach material on top shelves. This precaution makes it unnecessary for workers to stand on boxes or stretch for something which is out of reach—thus averting the possibility of their falling or pulling down something on their heads.

Small hand trucks are employed for carrying reams of paper and other heavy supplies around to offices. This

equipment rules out possible back strain.

With maximum control of physical factors, there are still hazards in offices that may result in injury to employees who disregard precautions. Only through promoting safety-consciousness, fostering the habit of doing things the safe way, can these be reduced.

By means of slogans, posters, etc., precautions to be exercised in the use of office equipment are stressed. Care in feeding paper into duplicating machines of various types is urged to prevent fingers catching. Employees are reminded that when typewriters are pulled too hastily and forcefully from compartments there's the possibility of jamming a finger. The danger of leaving too many file drawers open and causing a filing cabinet to topple is also stressed.

Safety-consciousness results in cautious use of corridors and staircases, where accidents may occur through inattention and haste.

"Think Before You Tread" is a slogan full of significance for the office worker who may, for instance, have rushed into an unfamiliar office only to discover, too late to avoid a fall, that the floor was highly waxed.

Emphasis on fire prevention discourages the habit of flicking matches into wastebaskets instead of ashtrays.

Encouraging group effort and leading workers to pass on their knowledge of safety precautions to associates are Brake Shoe's $50 improvement awards, made every six months to plants where the "accident factor," based on both frequency and severity of accidents, shows at least 50 per cent improvement over the accident factor for the previous six months. With every additional 5 per cent improvement over the 50 per cent, the award is increased by $5.

By Virginia Kent. *Office Management and Equipment,* August, 1947, p. 23:4.

Office Salaries in 10 Cities

The average office worker in an average office job earns $36.60 weekly in 10 pilot cities covered in NOMA's 1947 annual salary survey.

The male worker can be expected to earn $38 weekly, while the female worker draws $35, on an average, based on a composite of rates reported for 13,145 typists, bookkeepers, stenographers, file clerks, and mail clerks, in 497 companies employing a total of 88,992 office workers. Pilot cities were: Atlanta. Boston. Denver, Detroit, Kansas City, Milwaukee, New York, Philadelphia, Seattle, and Worcester.

The data were extracted from reports of 25 NOMA chapter cities for 899 companies, giving rates paid 67,335 workers.

Bookkeepers, as might be expected, fare better by some $10 to $20 per week. Males draw $57 weekly, on an average, while females are paid $46 weekly.

Stenographers fare next best, with males being paid $38 and females $36 weekly. Male stenographers were reported in only six of the 10 pilot cities.

Male typists draw $34 weekly in the four cities reporting their rates. Females earn $31, on an average.

Male file clerks are paid $32, while the females get $1 less weekly.

The same differential applies to mail clerks, with males being paid $31 and females $30 weekly.

Offices of under 26 employees paid the lowest rates. Their rates were no lower, however, than those of the 251- to 500-employee office. Highest rates were paid in offices with 501 to 1,000 employees. The male-female differential was also greatest for offices of over 500 employees; smallest in offices of 25 or fewer workers.

The office salary picture is less than complete without a brief review of some of the more important office practices. Though the 40-hour week was well in the acceptance lead, the 38- or 39-hour week was in second place. The trend was distinctly toward shortened hours, with relatively few instances of a plus-40-hour schedule in vogue.

While vacation with pay for office workers is universal, the length of service required and the length of grant varies widely. From a composite standpoint, two weeks' grant after one year's service, with one week for six months' service, is, by far, the most frequent practice.

Wage incentive plans were operative in only 5 per cent of the companies. In 31 per cent of the company sample, however, there was a correlation between the rate increases granted office workers and those granted production maintenance workers.

BY VAUGHN FRY. *American Business,* July, 1947, p. 27:3.

Dictation via Telephone

HAVE you considered the feasibility of telephone dictation for certain phases of your office operations?

At Bell Telephone Laboratories, New York City, an engineer, after gathering his notes and arranging them for dictation, can lift his telephone and ask for "telephone dictation" or "stenotype telephone dictation."

Telephone dictation—that is, dictation directly to a typist—is used for comparatively short, well-prepared dictation. The transcription department has its own monitor board, and the call is quickly assigned to one of a group of typists, each equipped with two typewriters. One machine is reserved for cylinder and similar forms of transcription work, the other for telephone dictation.

The girl receiving the engineer's assignment slips on a set of earphones, turns to her spare typewriter, and types as he dictates. When the engineer is finished dictating, the typist's work is finished too. Thus the engineer has his report in a matter of minutes.

The stenotype telephone dictation section handles longer or less well-prepared material. In this way, corrections can be made easily on the stenotype tape during the dictation and can be incorporated in the finished job. One stenotypist can be decoding the tape while the engineer is dictating to another.

—CHARLES HACKETT in *Office Management and Equipment* 9/47

• BEFORE THE WAR, the ratio of office personnel to factory workers was estimated at 1 to 9; today—probably as a result of smaller production per employee, use of poor or obsolete equipment, and perhaps lack of adequate pay incentive—this ratio is 1 to 4. When we remember that office costs are *expense* costs (i.e., costs which must come out of the profits of the firm, in contrast to manufacturing costs, which can be passed on directly to the public), this is a terrific increase which calls for heightened cost-consciousness on the part of office executives. Specifically, what is needed is a *coordinated* program of office cost control, embracing over-all administrative and clerical cost control, departmental cost control, and unit cost control (this last the most difficult but most tangible type of control).

—JOHN J. W. NEUNER

PERSONNEL...

Company Medical Programs

SEVERAL inquiries about the range and cost of company medical programs prompted Industrial Relations Counselors to undertake a quick investigation of the field. In November, 1946, a simple questionnaire was sent to 52 companies, of which 45 returned usable replies. The medical departments reported on serve 560,163 employees at 156 locations or establishments. The size of company as well as size of operating unit varied greatly. The smallest company employed 975 workers and the largest multi-plant concern, 105,800. In a number of cases data were for a group of representative establishments, while in others the information was for all plants.

Cost figures for 1945 were made available for medical departments in 115 establishments, with approximately 406,500 workers. The average annual cost per employee was $9.42, ranging from a purely nominal figure of 71 cents in one relatively small headquarters office to $24 in the main factory of a drug company, which by reason of the nature of its business lays special emphasis on its medical program. The returns revealed no significant variation in cost per employee according to size of plant or size of company, or even to the character of services offered. In view of the wide range in costs reported and probable differences in accounting procedures, the average figure given should be regarded only as indicative of the general level of such costs.[1]

The total personnel of medical departments reported by the 45 companies was 1,326, classified as follows: 25 medical directors, 156 full-time doctors, 254 part-time doctors, eight doctors "on call," 572 full-time nurses, 16 part-time nurses, and 295 other staff. The part-time doctors worked on an average 15 hours a week. Assuming that full-time doctors and medical directors are on duty an average of 40 hours per week, and taking account of the number of hours worked by part-time doctors, it appears that the equivalent of one full-time doctor was employed for every 2,089 employees.[2] There was one full-time nurse for every 979 employees and one additional clerk or technician for every 1,899 employees.

The size of establishment is an important factor in determining the basis on which doctors are employed, as is shown in the tabulation below.

[1] The American College of Surgeons found the average per capita cost in 1942-1943 to be $6.21, ranging from $7.82 in plants with less than 500 employees to $5.59 in plants with 1,000 or more employees. G. R. Hess, *Medical Service in Industry and Workmen's Compensation Laws* (revised ed.), Chicago: American College of Surgeons, 1946, p. 57.

[2] In calculating this figure, the plants for whose part-time doctors the number of hours worked was not reported and two large plants where complete medical service is furnished to the families of employees were excluded.

TABLE I

PERCENTAGE OF ESTABLISHMENTS WITH DOCTORS ON SPECIFIED BASIS

Employees	*Establishments*	*Full Time*	*Part Time*	*Full and Part Time*	*On Call*	*None*
Less than 500	32	..	71.9	..	3.1	25.0
500—999	28	21.4	60.7	..	..	17.9
1,000 and over	96	37.5	42.7	14.6	3.1	2.1
Total	156	25.6	51.9	10.3	2.6	9.6

Nurses, most of them full-time, were employed at 84 per cent of the locations. In establishments without nurses, doctors' services on some basis were provided except in a handful of locations where there were fewer than 500 employees.

The most complete medical coverage was supplied by companies that employed only full-time doctors, where there was one for every 1,498 employees, and $13.42 per employee was spent on the program. Companies that made use only of part-time doctors had the equivalent of one full-time doctor for every 3,703 employees and spent $6.18 per employee. Those companies, generally large and with multi-plant operations, that engaged both full-time and part-time doctors provided the equivalent of one full-time doctor for every 2,085 employees, and the programs cost an average of $9.04 per employee.

Of the 45 reporting companies, 19, mainly firms with multi-plant, scattered operations, had full-time medical directors at their central headquarters, whose duties were principally administrative. Three companies relied on part-time medical directors, and two received advice from outside doctors. In two companies the medical programs were supervised by registered nurses.

Fifteen of the 22 companies employing full-time doctors permitted them also to engage in private practice. Of the 156 full-time doctors, however, 98 were not given this privilege.

As would be expected, full-time doctors, with rare exceptions, are compensated by salary. Of the part-time doctors, 151 were on salary, 98 on a fee basis.

The replies show not only that there is general recognition of the need for pre-employment physical examinations among the reporting companies but that a high proportion of them have come to realize the value of periodic examinations. Some indication of the intensiveness of the examinations is given by the character of equipment provided, which included the following: X-ray (34.6 per cent of establishments), cardiograph (19.9 per cent), and basal metabolism (5.1 per cent). First aid was available in nearly all locations, and in most cases the treatment was given in rooms especially equipped for this purpose. In the field of preventives, somewhat over half the establishments were giving vaccines or vitamins. Physiotherapy was also fairly common, with infra-red and ultraviolet lamp installations in 66 and 51 per cent of the establishments. Though relatively few companies felt it necessary to provide optical examinations, nearly half of them made use of some kind of optical equipment in examining employees. About 7 per cent of the establishments provided home nursing for employees, and the same proportion supplied medical service to employees' families.

The character of the service provided in the 156 establishments of the 45 companies furnishing this information is summarized in Table II, which lists the services in order of their prevalence.

TABLE II

Medical Service Provided	*Percentage of Establishments Reporting Specified Service*
Pre-employment examinations	95.5
First-aid treatment	95.5
Periodic examinations	71.8
Preventives, vaccines, vitamins	55.1
Physiotherapy	41.0
Optical examinations	13.5
Home nursing	7.1
Medical service to family	7.1
Laboratory examinations	4.5
Dentistry	3.2
Psychiatry	2.3

The medical facilities reported are listed in the following table in the order of their prevalence:

Medical Facilities Provided	*Percentage of Establishments Reporting Specified Facility*
First-aid room	92.9
Infra-Red lamp	66.0
Ultraviolet lamp	51.3
Eye-testing equipment	47.4
X-ray	34.6
Cardiograph equipment	19.9
Oxygen tents	5.1
Basal metabolism equipment	5.1
Diathermy machine	5.1
Operating room	5.1
Dental equipment	4.5
Dental X-ray	3.8
Ambulance	3.2
Ward in local hospital	1.9

Occupational Medicine, June, 1947 (reprinted from *Industrial Relations Memos* No. 91, Industrial Relations Counselors, Inc., New York).

Workers Give Day's Wages to Chest Fund

THE Cleveland Community Chest gained $3,182.75 from the gift of employees of the Cleveland Cap Screw Company, who worked one Saturday without cash return to themselves so that their wages could be remitted by the company to swell the Chest fund. The idea of the gift was proposed and voted upon favorably by the employees at a general meeting. Normally working a five-day week, 95 per cent of the employees turned out to earn the extra day's pay, and many who were ill or on vacation added their pledge in the same proportion. Plant workers were not the only employees aiding the fund; the salesmen and special representatives throughout the country waived their commissions on shipments made that day.

—*Mill & Factory* 10/47

Age and Strength

AT what age does bodily strength begin to decrease, and how rapid thereafter is the rate of decline? While it is highly important not to confuse physical strength with productivity, findings of a recent study by Fisher and Birren* will be of interest to personnel and production executives. This study is summarized as follows:

1. Dynamometer measurements of hand strength on a group of 552 male manual industrial workers showed maximum strength in the middle twenties, with a continuous decline thereafter. At age 60 the decline in average strength amounted to 9.25 kg., or 16.5 per cent from the maximum. There was considerable overlapping among age groups.

2. These findings are in agreement with other data on several measures of muscular strength which show that strength increases up to the middle or late twenties and declines continuously thereafter. In most studies the rate of decline increases with age.

* *Journal of Applied Psychology,* October, 1947.

AMA WINTER PERSONNEL CONFERENCE

The Winter Personnel Conference of the American Management Association will be held on Monday, Tuesday, and Wednesday, February 16-17-18, 1948, at The Palmer House, Chicago.

11 Principles for Effective Communication

LIKE the late George Apley and his Boston Brahmins, many well-intentioned managements don't know, or have utterly failed to recognize, the how-to principles and techniques of getting their aims and intentions across to Tony and Mike, and to Maria and Sophie and Sadie. Following are at least some of the principles that must be observed if a clear, direct, two-way channel of communication is to be built between labor and management:

1. *Be sincere.* Management must honestly have the welfare of its employees at heart. False attitudes can be spotted quickly by the employees. Employee faith in the company, once lost, is difficult to re-establish.

2. *Conduct employee research.* This is a *must.* It uncovers the wants and desires of employees, exposes fallacious reasoning on the part of management, and indicates improvements in policies and procedures. It is one way of convincing employees of management's sincerity, especially if the results are reported, and if immediate action is taken to effect suggested improvements.

3. *Put the company on record.* This means plenty of printed communications and visual material. A concern that commits its policies, procedures, benefits and services to writing and illustration usually knows what it is doing to achieve good employee-employer relations; and frequently it makes those good intentions realities.

4. *Meet with the employees.* Research is not the only way of obtaining employee opinions and building employee morale. Conferences and forums are becoming increasingly significant and resultful.

5. *Offer security.* This should be done in many ways: assurance of continued employment; training and opportunities for advancement; medical care; safety measures; insurance, pensions and bonuses; recreational programs. Avoid paternalism in presenting these services and benefits; and be sure to give the employee a chance to express his opinion concerning them.

6. *Seek employee advice and assistance.* This is a sure way of establishing good will and giving employees the sense of belonging and accomplishment that contributes so much to personal satisfaction. An employee committee can be invaluable in preparing the company handbook, editing the house organ, promoting safety, developing recreational programs, determining insurance and pension plans, and providing company product information. Here suggestion systems have a real place.

7. *Use the advertising and sales departments.* These departments can sell the company to the employee, as they sell the company and its products day in and day out. Examination of many types of employee communications, especially handbooks, reports, and booklets, indicates that those most concerned with selling the company and its products should have a greater voice in the preparation and presentation of employee materials.

8. *Prepare communications materials carefully and attractively.* This requires experience in writing, selling, production. Too often employee booklets, house organs, handbooks, and benefit and service materials fail to achieve their objectives because they are lacking in salesmanship, in skillful

presentation, and in physical appeal.

9. *Revise communications materials periodically.* Employee-employer relations are constantly in a state of flux. This means that many types of materials should be planned with the thought that some revision will be necessary from time to time.

10. *Provide as much editorial freedom as possible.* Management's views should be presented frankly and objectively, and at no time should sugar-coated propaganda be used. Give the individuals preparing such communications as much latitude as possible, holding taboos to a minimum, and they will do a good job for management and the employee.

11. *Offer a tailor-made communications package.* Don't copy what the other fellow has done. If another company produces a nice-looking annual report to employees, that is no proof that the same approach will meet your company's communication problem. The emphasis given to various types of company information depends on the problems involved, their scope and intensity. This can best be determined by adequate research.

Surveys show that few companies are aware of all the tools that can be used for achieving good employee-employer relations. The check list that follows contains most of them:

1. Employee surveys (with report back to employees): in the plant, in the community.
2. House organ (internal or internal-external): all-company, divisional or branch, departmental.
3. Annual report to employees (annual report to stockholders and company year-books are sometimes distributed to employees).
4. Company handbooks (complete company presentation, history, benefits, rules, etc.): all-company, divisional or branch, departmental.
5. Supervisory publications: executive handbook, company principles and policies, executive's bulletin, foreman's (supervisor's) handbook, leadership guide, personnel rating guide.
6. Selling information: products, merchandising information, advertising and display information.
7. Employee benefit publications (often combined or placed in company handbook): profit-sharing plan, medical and hospitalization plans, savings plans, bonus plans, pension plans, vacation program, suggestion system, insurance protection, club and recreation programs.
8. Handling the public: courtesy, publicity and public relations, strikes.
9. Advancement publications: opportunities for advancement, better job performance, training data.
10. Company history: special booklet(s), special house organ treatment—articles, issues.
11. Special-purpose publications and devices: figure and fact information; company data—physical layout, departments, services; women's booklets; interesting job information; executive messages; equipment operation; check list of company's publications and services; company policies; house organ inserts; interim reports; special letter series—employee, family; contest, safety, souvenir booklets.
12. Plant bulletin board publications (supplement or replace printed publications).
13. Payroll inserts.
14. Plant-city advertising.
15. Posters.
16. Motion pictures and sound slides (supplement or replace printed publications).

By Harold E. Green. *Printers' Ink*, September 26, 1947, p. 27:3.

• NO SMOKE, NO FIRE. A lot of fires that might occur at Gulf Oil Corp.'s Philadelphia refinery are pigeonholed before they get started. Every day workers check their matches and cigarettes at the gate when they check themselves in. This is part of the rigid safety code which has enabled the oil industry to establish a fire loss ratio of .087 per $100 of insurable value in the last decade.

—*Business Week* 10/4/47

PRODUCTION MANAGEMENT...

Scrap Reduction Gains Recognition

SCRAP—and its twin brother, rejects—are the White Man's Burden in any manufacturing business.

Of all the many methods of reducing cost in shop or plant, there is none more prolific of gratifying results than that of scrap reduction.

In a large concern manufacturing engine parts and other products, I was given a certain part to survey and determine what cost reductions could be effected. About 200 parts of the same class, but not of the same size, were being produced.

First, I obtained from the chief cost accountant all available cost and scrap cost figures, not of the entire 200 models but of the three models turned out in largest quantities. I found that the plant was operating on so-called standard costs.

Exact costs of the parts were not even being compiled. A working cost had been set up, based on the cost of other parts made in the past but not this particular part. Scrutiny of available scrap costs showed that parts were costing 10 times the value at which they were being carried on the books. Inspection of the foremen's daily and weekly scrap records showed that the amount of scrap was tremendous.

One of the first discoveries was that all scrap was authorized by three inspectors and that 92 per cent was condemned by one man. That lead looked good, but it then developed that the night shift culled out suspected parts and held them for the day inspector to condemn officially. Reports that went to the office showed a high scrappage on the day shift and little scrap on the other shifts. This fact was interesting to management, but of no value for determining the reasons for scrapping.

I then spent some time with each inspector. The real facts were now beginning to emerge. Parts that were being scrapped were made from either forgings or bar stock. Each part required an average of 95 separate operations.

Each part had two connecting holes drilled in it. The holes were one-eighth inch in diameter and from four to 12 inches deep. One hole was drilled at the sixth operation, but the other hole was not drilled until the 91st operation.

The second hole was drilled at an angle and had to meet the first hole squarely and not overrun it by more than 0.010 inch. Parts were being scrapped because the second hole was running out and not meeting the first hole properly.

The job itself was difficult. Add to that an incentive wage rate and the pressure on the production department to get parts out, and it is easy to see why scrap was high.

The next question was, "Why not put the scrapping operation in first?" Investigation showed that the troublesome operation was the 91st step because the part had always been processed that way. Many attempts had been made to correct the operation, but

no one had attempted to modify the process. We carefully reviewed the whole subject in the light of conditions now known.

Drilling of the holes themselves in straight lines, and to very close runout tolerances, was a difficult job at best. It was an operation that should be done on a machine not now available, an upside-down drilling machine with various adjustments. We found we could reprocess the job and put the scrapping point in as the 12th operation provided we retooled the part. The value of the part at the 12th operation was $4.18; at the 91st operation, $28.64. The difference in cost justified the expense of retooling the part so the change was made. Results have been so gratifying that some other parts will be retooled on the same basis.

There are thousands of ways of making scrap, and there are thousands of ways of correcting and controlling that scrap. But all these problems can be tackled by this definite and little-known method of "watching the scrapping point."

It is true that, in processing a new part, one cannot always forecast the operation that will result in spoilage and scrap. It is also true that few tool engineers give the scrapping point any consideration.

If that point is kept definitely in mind, watched for, and the tooling corrected as soon as the trouble spot is discovered, the engineer's batting average against scrap will rise definitely and rapidly.

It matters not whether a product is part of an automobile, a hammer, or tenpins, a logical campaign in the interests of scrap reduction should follow this path:

1. Investigate—get available figures and costs.
2. Analyze reasons for scrap.
3. Determine scrapping points.
4. Reprocess, retool, and correct.

By James K. Matter. *American Machinist,* October 9, 1947, p. 114:2.

• STRAIGHT-TIME HOURLY EARNINGS of all plant workers in machinery industries in large cities of the country averaged $1.22 in October, 1946—a gain of about one-fifth since January, 1945. Women earned an average of $1.00 an hour, whereas the average for men was $1.23. Hourly earnings in the Great Lakes region, where the machinery industries are most heavily concentrated, were 4 cents above those in the Middle Atlantic States—the second most important region in terms of number of workers. Wages in the Great Lakes region were exceeded by those on the Pacific Coast; the lowest average was found in the Southeast.

—*Monthly Labor Review* 9/47

The Foreman's Responsibility for the Earning of Bonus Rates by the Operators

TO promote the success of a bonus system and to keep lost rates at a minimum, the following rules should be observed by the foreman. He should see:

(1) That the work is being done on the machine or equipment on which the job was time-studied.

(2) That proper tooling for the machine or equipment is being used as when the job was time-studied.

(3) That proper feeds and speeds are being used.

(4) That the machine or equipment is properly maintained.

(5) That adequate material-handling facilities of the proper type are available.

(6) That the operator is qualified to do the work and that he has been properly instructed.

(7) That the operator is putting forth a satisfactory effort.

(8) That he can answer satisfactorily all questions which might be asked by an operator in regard to the job or the bonus plan.

(9) That a daily or weekly review is made of the results of jobs run on bonus.

(10) That the time study department is notified of all changes in methods, design, materials, or other factors which might affect the time standards.

When an order cannot be completed in one setup, an *account number* for *re-setup time* should be used on the time ticket.

When a productive worker has lost time because of *idle time—power machine breakdown* or time lost *waiting for work* beyond his control—an account number should also be used on his time ticket.

When such account numbers are used *as necessary,* the production operator will not be penalized. This will also help to provide a truer cost of a manufactured part.

—L. E. SHAW in *Industrial Management Bulletin* 5/6/47

Simplify or Diversify?—Which Is YOUR Answer?

DECISION to simplify or diversify a given line of products can be reached only through an analysis of operating conditions within the individual company. If you must answer "Yes" to many of the questions in the two sections below, it's time to think seriously of diversification, simplification—or both.

Does your line need simplification?

1. Do production shifts from one model, type, color, or finish to another materially slow down your output?
2. Do you produce so many variations in your products that it is impossible for either you or your salesmen to push any of them up to their potential?
3. Have you recently decided against the purchase of an item of high-speed machinery because your runs are too short to use it effectively?
4. Is it difficult to initiate distributors and dealers into complexity and variety of your line?
5. Does a careful sales analysis show a wide discrepancy in sales volume achieved by particular varieties within a general-product category?

Does your line need diversification?

1. Do you market all your production through a single channel of distribution?
2. Is your entire line aimed at customers within a single income bracket?
3. Could your sales staff conveniently handle additional items while making calls on their regular customers?
4. Do your cost records show idle time (seasonal or otherwise) in the use of expensive production machinery or skilled labor?
5. Are annual sales of your products, per distributor and per retailer, too small to command top attention?

—*Modern Industry* 9/15/47

MARKETING MANAGEMENT...

Company Practices in Marketing Research

IT is a significant fact that a majority of 1,812 companies which engage in marketing research activities could not or would not give information about their research expenditures, when queried on the subject in a survey sponsored jointly by the American Marketing Association and the NAM. Of the 1,812 respondents, nearly 65 per cent did not answer this question.

Since considerable reluctance was evidenced on the part of firms returning questionnaires to indicate their marketing research expenditures in terms of dollars, it was decided to request this information in terms of sales volume.

It was found that the 1944-45 expenditures for marketing research of 29 per cent (525) of the firms surveyed amounted to .1 to .3 per cent of their net sales; those of 3.3 per cent (60) amounted to .5 to 1 per cent of net sales; those of 2.9 per cent (52) amounted to 3 to 5 per cent of net sales. For the same period, 21.3 per cent (385) of the companies reported expenditures for advertising to have been 1 to 3 per cent of net sales; 15.3 per cent (278) reported theirs as .1 to .3 per cent of net sales.

The weighted average cost for the 303 companies with research departments that reported costs was 0.28 per cent of net sales; that for 335 companies where marketing research is a function of a line executive was 0.29 per cent of net sales. It would seem, therefore, that it costs no more—and probably slightly less—in terms of per cent of sales to have the marketing research functions performed by an established department than to have such functions performed by line executives.

As would be expected, the expense percentages for both marketing research and advertising fall as sales volume rises. But the percentage spent for marketing research declines faster than that spent for advertising, with increasing sales. The marketing research expenditures of the largest companies, in terms of per cent of sales, were only 57 per cent as large as those of the smaller firms, but their advertising expenditures were 70 per cent as large.

Consumer goods companies were shown to be spending almost twice as much (2.9 per cent of net sales) for advertising as were industrial goods firms (1.6 per cent of net sales). It was found, further, that companies selling consumer goods spend slightly more for marketing research and are somewhat more articulate about those costs than companies selling industrial goods. Companies that have organized research departments spend about the same relative amount for marketing research as do firms in which marketing research is a line executive function. The smaller organizations spend more relative to sales and are more articulate about their costs than are larger companies. Thus while the need for marketing research may increase in proportion to a firm's sales growth, it does not necessarily follow that research costs should grow at the same rate.

This might occur up to a certain point—but beyond that point many accumulated efficiencies and economies, such as multiple uses for each completed research undertaking, become effective and retard the upswing of costs.

Asked through what channels they do their marketing research, one-third of the companies responded that they do their own research, another third were about evenly divided between the employment of advertising agencies and marketing research consultants, and the remaining third did not answer the question.

Of the 539 firms which have established research departments, nearly 80 per cent said they intended to expand those departments. The tendency toward greater expansion is more marked among the larger companies. More than half the companies with sales of $5,000,000 or more which answered the question and which do not now have a centralized department intend to organize one.

On the basis of the survey findings, certain rather definite recommendations can be made with respect to the organization, staffing, and use of the marketing research department. These recommendations follow:

1. The department head should be selected carefully and should have all or most of the following qualifications: (a) academic training in economics, marketing, statistics, and business organization; (b) objective thought habits and keen analytical ability; (c) uncompromising intellectual honesty; (d) ability to get along with people, even when they disagree violently with his conclusions; (e) experience in marketing research and in selling or advertising.

2. Place the department in the organization so that it is free to report its conclusions without bias. Properly, the marketing research department should report to the president, but it should normally never report to an executive lower than the vice president.

3. Determine a long-range program for the department, subject, of course, to revision necessitated by changed conditions and agree on the precedence and emphasis for particular parts of the program.

4. Set the budget and personnel complement for the department on the basis of the program. Remember that such a budget must be flexible and that the cost of the research must be kept in line with its probable value. If the value to be derived from a project increases, increase the budget.

5. Give the research department head a discretionary budget. With it, he may be able to discover economies, sales and advertising methods, and other data that will save much more than the amount of the entire departmental budget. He might not be able to get an appropriation passed for such investigation. Timing is of the essence in many research projects.

6. Demand a statement on each part of the program showing: (a) purpose; (b) method; (c) limitations of the job; (d) cost of the job. Demand progress reports at stated intervals.

7. Make your research man a member of all sales, advertising, and product committees. He cannot anticipate need for research or suggest its most effective use unless he is aware of all the problems facing the company and is familiar with company plans.

8. Don't expect a research man to spend all his time in the office. Swivel-

chair research is dangerous. The conscientious research man will and must travel and contact others in the field for fresh ideas and new sources of data.

BY W. W. HEUSNER, C. M. DOOLEY, G. A. HUGHES, and P. WHITE. *The Journal of Marketing,* July, 1947, p. 25:13.

Controlling Salesmen's Expense Accounts

WITH management currently redoubling its efforts to curb retail price rises by cutting costs, many sales managers will have to decide where to trim their traveling salesmen's expense accounts. If this problem faces you, the following findings of a survey by *Printers' Ink* to determine present practices of representative companies in controlling expense accounts should be useful as a base against which to check your operations.

More than three-fourths of the companies surveyed make some form of allowance for salesmen's expenses. The others say that their rate of commission is high enough to cover salesmen's expenses. They claim that by letting the men decide how much to spend, the salesmen are prepared to do a more responsible job.

Of those companies that place an expense account at the disposal of their travelers, almost two-thirds set no limit on expenses but demand an accounting of how the money is spent. In this way, salesmen feel free to go after orders that warrant some extra expense. The home office has sufficient control to know if a man goes hog-wild on the swindle sheet. Most sales managers find home office control enough restraint to keep expenses of able salesmen in line.

A few companies set a definite limit on expenses, and some firms give all salesmen a flat sum. None of the companies reporting allows salesmen an expense account that does not have to be accounted for by the men. None of the firms reporting fixes allowances for each man on the basis of his sales performance.

In general, the attempt is to pay salesmen for actual expenses on the road, while employing a minimum of red tape in checking up on expenditures and allowing as much leeway as is economically sound. When district sales managers are in charge of men in their areas, the control is through them, with general budgets for expenses established in advance on the basis of past experience and changes in living costs.

In relation to total sales, salesmen's expenses are running at 0.5 to 1.5 per cent at the present time. Only half the companies surveyed were able to answer a question covering this point, indicating that many sales managers do not have a ready record of how much of their total sales expenses goes into keeping the men traveling. One company, on the other hand, keeps such close track that it figures expenses out to three decimal places, listing total salesmen's expenses at 0.6888 per cent, of which 0.414 per cent is the cost of travel and 0.224 per cent is the cost of entertainment and the remainder is miscellaneous.

Three-fourths of the sales managers answering the questionnaire believe salesmen's expenses are just about right at the present time, considering advances in the cost of living and the

necessity of more intensified sales activity. Approximately one-fourth believe expenses are from 10 to 30 per cent too high. No one answering suggested that expenses are lower than they should be, and while several stated that they had recently raised the ante for their men on travel, none is attempting to increase the amounts now.

Approximately one-fourth of the managers reporting say they are attempting to decrease the amounts paid their men. One firm is accomplishing reductions by "giving incentive for low expenses in ratio to sales." Another does it by "consulting with the salesmen on control of unnecessary expense, checking their reports for this, stressing cost-per-sale angle and their compensation involved." Another company is "insisting that salesmen be more conservative, especially in entertaining."

Some entertainment allowance, however, is considered sound business by almost all the sales managers answering. Only about one-eighth are not willing to have their men entertain buyers at company expense. The objective of five out of 10 managers in okaying expenses of this kind is "to keep business on a friendly basis." Three out of 10 managers are simply following the custom of the trade. One manager in every 10 believes that buyers expect entertainment, and that the only solution is to give it to them. One manager out of 10 believes that by getting the buyer out of his office for some form of entertainment, the salesman has a better chance to close a deal.

Nine out of every 10 companies require weekly expense reports from their salesmen. The remainder expect reports either monthly or bi-monthly. None of the companies reporting asks its men to file expense forms daily, though most require some form of daily accounting, mailed to the home office once a week.

The expense report form that is most popular with salesmen is short and easy to handle, preferably a pocket-size.

The expense reports most popular with sales managers, however, are letter-paper size, and more complex. When the salesmen drive company-owned automobiles, either a separate form is used for recording all details of car expense or a separate section on the one form provides the same information. Most report forms ask for an accounting on entertainment expenses including names of people entertained as well as type of entertainment.

Usually, the salesmen are required to file weekly reports on Saturdays, and monthly reports early enough to reach their managers by the fifth of the following month.

By Carroll J. Swan. *Printer's Ink*, August 22, 1947, p. 27:3.

New Approach to Salesmen's Auto Costs

In the three years from 1944 to '47, costs of operating the sales fleets of Republic Light, Heat & Power Company and two sister corporations were cut slightly more than one-quarter cent per mile—which means annual savings of several thousand dollars.

What's the secret? Simply to change oil frequently—in Republic's case, whenever it was contaminated, but at a maximum of 1,500 miles.

Oil must lubricate the fast-moving, closely-fitting parts in an engine; seal the

piston and rings to the cylinder; cool, taking heat away from the cylinder; cleanse the engine, which, while operating, produces "ashes," or waste.

As the parts of an engine move, they beat the oil—and ashes, too—converting fresh, clean motor oil into emulsions, acids, and finally into mayonnaise-like sludges so heavy that they won't flow. It is this condition which robs an engine of its efficiency and causes more gasoline per mile to be consumed, and overhaul costs to shoot up.

It is true that over a year you will buy more oil than might otherwise be the case. Naturally, your oil costs will rise. But by using fresh oil you get improved lubrication, sealing, cooling, and cleansing of your engine. Because this keeps up engine efficiency, you reduce the amount of gasoline required to go the same number of miles. So there is a cash saving on gasoline to counterbalance the increased cost of oil. In addition to this saving, you spend less money for engine maintenance.

—S. B. Severson in *Sales Management* 10/1/47

New Method of Setting Quotas

ON an experimental basis the Silex Company is inaugurating a new compensation plan for salesmen which may offer ideas to other organizations. The figures used in this description of the program are all hypothetical.

Territories are classified A, B, C, and so on, by volume average for the preceding five years:

Territory	*Volume*	*Compensation Range*
A	$150,000–$200,000	$4,000–$5,000
B	200,000– 250,000	5,000– 6,000
C	250,000– 300,000	6,000– 7,000

—and so on. The five-year average, which changes each year, gives the territory quota. The base salary is paid on an agreed percentage of quota—for example, 80 per cent. From this point on, the salesman receives an increasing bonus for each unit of sales—perhaps 1 per cent on the next $5,000, 1½ per cent on the second $5,000, 1¾ per cent on the third, and so on. A salesman who consistently exceeds quota for five years will move into the next higher volume classification, with corresponding increase in base pay. At the same time, he will automatically receive base increases of $200 a year to bring him, in a five-year period, to the top of his salary range.

"We are quite enthusiastic about the plan, and the men who have been switched to it are also impressed with its fairness," says J. M. Moore, Silex's general sales manager. "It eliminates the human element from quota-setting and permits management to avoid any charges of favoritism. The use of the increasing override on higher sales rewards the man most for the last 5 per cent of business he gets, instead of discouraging him at the outset by suggesting a goal which is too high."

The system can be elaborated by offering extra points toward quota in slack seasons or during special drives. It can also be used to induce the individual salesman to do a more complete job. If, for instance, a man is weak on sending in reports, it is possible to offer him an extra 200 quota points annually so long as he gets his reports in promptly. By keeping this reward on a contingent basis, the company can keep the man up to the mark.

—*Dartnell Sales Service* (Chicago)

• THE COST of materials and labor expended on packaging usually ranges from 2 to 8 per cent of the salable value of the goods packed. The average ratio is probably around 5 per cent.

—S. L. Swenson in *Shipping Management* 9/47

FINANCIAL MANAGEMENT...

Annual Reporting—A Study in Paradox

OF 3,500 annual reports for 1946 surveyed by *Financial World*, not more than 25 per cent could be given top rating, measured against modern standards. Why do so many corporations fail to use their annual reports to best advantage? Following are some of management's reasons, under the spotlight of critical analysis:

1. *"Stockholders are interested only in dividends. They never read annual reports."* A popular excuse for doing nothing to improve annual reports, this statement has about as much validity as counterfeit money. Surveys show that at least 50 per cent of stockholders read the annual reports they receive from cover to cover, and many more would do so if the reports were made more readable.

2. *"Our stockholders are satisfied now. Why stir up trouble by expanding our annual reports?"* Few managements have any real knowledge of stockholder opinion unless a special study has been made to determine it. Surprisingly few companies have even surveyed their stockholder lists to ascertain such pertinent information as average holdings, geographical distribution, etc. Yet case histories are not far to seek where management, lulled to sleep by the security of ignorance, has been harshly awakened by a proxy fight in which management has been routed. The modern annual report does not stir up trouble for the company; it often forestalls trouble.

3. *"We don't want to say too much in our annual report for fear of its effect on our employees."* Some corporation executives seem to forget that anyone with sufficient interest can obtain from the Securities & Exchange Commission, and other sources, complete financial data on any firm with listed securities outstanding, and that today's labor leaders are well aware of that fact. What business has to fear is not the truth but such misinformation as is evidenced in the belief, held by many workers,* that the average manufacturer makes an annual net profit of 25 per cent or more, or that stockholders and management get more out of the corporate dollar (after payment of overhead and materials) than is paid out in workers' wages. With such misconceptions rampant, there seems little danger in frank admission that your company has had the best year in its history and has actually netted less than 10 per cent on its capital investment.

4. *"It would be too costly to modernize our annual report."* It is not necessary to go overboard in the matter of expense to produce a modern annual report. On the contrary, over-ostentation may be even worse than over-conservatism. An annual report should be planned in terms of its audience and of the effect the company desires to achieve. Most problems of this kind can be solved within the limitations of a reasonable budget.

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* "Penalties of Economic Ignorance," by Frank M. Surface (Standard Oil Company—New Jersey), an address before the New England Council.

5. *"If we make a sudden change in the format of our annual report, our stockholders may think we are trying to put something over on them."* Stockholders are much more likely to become suspicious of the old-fashioned "treat 'em rough and tell 'em nothing" type of management than of officials who sincerely try to present a complete story of the company and its operations. Many companies today are reporting to stockholders more fully than ever before. Management should remember that a stockholder in one company is likely to be a stockholder in other concerns. Comparison of the way in which each of these companies treats its stockholders may arouse some pretty adverse comment.

6. *"A modern annual report contains too many comparisons which may look favorable this year, but which will look very unfavorable if we have a slump."* It is true, of course, that any bad year compares unfavorably with previous good years. But if stockholders have to be confronted with bad news, is it not better to suggest by means of comparative figures that the bad results are out of the ordinary rather than the usual thing? Management is judged by long-term results. One of the functions of the good annual report is to demonstrate that over the years management is doing a constructive job for the actual owners of the business.

7. *"If we say too much in our annual report, it may give our competitors too much information."* An annual report is primarily an accounting of past events. Because of its very nature and timing, such a report is an unlikely source of spot news which may influence the action of a competitor. Furthermore, management may be sure that in any highly competitive situation, competing concerns have long since established other and quicker channels of inside information.

8. *"We'd rather put our money into advertising than into an improved annual report."* The firm that is disregarding its annual report as a sales tool, as well as an instrument of public relations, is overlooking an important opportunity. For financial institutions, such as banks and insurance companies, the annual report can be especially effective in promoting sales. An annual report that is modern and comprehensive can be used with great effect to promote confidence and direct sales in countless different lines of activity. Alert management is constantly broadening the audience for its annual report.

9. *"It takes too much time and trouble to get out a comprehensive annual report."* It is true that to produce a good annual report requires much thought, planning, research, and technical skill. If management finds this a serious hurdle in the production of a top-quality report, it might be advisable to employ the services of some qualified outside organization to do all or part of the footwork necessary for the job—with management, of course, retaining full control over the editorial content and format of the report.

These are but a few of the more conspicuous objections that are frequently raised when the proposal to modernize an annual report is brought up. Most of these objections stem from lack of understanding of public relations or from misconceptions as to the character of stockholders as profound as some of the misconceptions labor holds with respect to corporate profits. Fortunately the short-sightedness which too often has masqueraded under the name of conservatism

is gradually being dissipated. It will be a bright day both for stockholders and American business in general when it can be said in all truth that business is really making the most of the annual report as a channel of communication with the world at large.

BY WILLIAM BARTON MARSH. *Financial World,* October 8, 1947, p. 14:6.

Does Your Accounting Make Cents?

ACCOUNTING is the only profession in which a millionth of a part receives just as meticulous attention as does the part itself. We draw on the midnight oil just as long to find a three-cent mechanical error as we do for a $300,000 one.

For a long time, however, there has been a trend toward expressing financial reports to the nearest dollar (in some cases, to the nearest thousand dollars). In the interests of simplifying our techniques of bookkeeping and reporting, it is suggested that careful consideration be given the advantages of following this trend—that is, of converting large blocks of our work from a nearest-cent to a nearest-dollar basis.

The advantages are of two general types, both stemming from the fact of simplification: (1) time would be saved in the handling of the figures; (2) a readier grasp would be afforded all persons concerned with them. There are fewer digits to deal with in all the analytical and reportive operations which follow in rapid succession upon the heels of the first recording of any transaction. This means simpler posting, fewer errors, simplified operations all the way down to the task of taking off a trial balance.

The first protest to arise against this idea is to the effect that the balance sheet cannot report an item to the nearest round figure if the underlying accumulative data are not expressed exactly, leaving the rounding operation until last. While this is true, the word "exactly" is a relative one. It is entirely possible that the number and fractional characteristics of the accumulative data are such that adequate exactitude is provided by expressing each of them to the nearest dollar.

A second protest will be that the books of account, being—among other things—a record of transactions with outsiders, must be kept to the nearest cent. At least one side of almost every entry has to do with financial relationships with outsiders, and the two sides of a double entry must balance to a penny. So, it will be argued, with only a few accruing and adjusting entries left to which to apply this nearest-dollar treatment, why bother with it at all?

But it need not be so by any means. As soon as we can devise a means of absorbing the odd pennies by which, for example, the nearest-cent figure for accounts receivable will differ from the nearest-dollar figure for sales, we shall have opened the way to a simplification of all subsequent operations upon the internal, or sales, phase of the entry—and incidentally, these analytical operations are usually far more extensive than any performed on the external, or accounts receivable, phase. Moreover, both sides of the companion entry charging cost of goods sold and credit-

ing inventory can be expressed to the nearest dollar.

So, in the case of booking a sale, only one out of the four customary accounts need be carried to the nearest cent, and if we can cope with that minor unbalance, a great saving in subsequent handling of the items will result.

A third protest might come from those who wonder about the effect of this "inexactness" upon income tax returns. It is felt that the method suggested later in this article would satisfy the most exacting of the Internal Revenue Commissioner's field agents, even without preliminary clearance.

To reconcile the conflict between the need to record cash and external debt to the nearest cent, and the desire to drop pennies from all other accounts, a "Rounding Adjustment" Account is proposed. In the chart of accounts, it would be among the nominal accounts, probably adjacent to a sundry expense account into whose balance it could be merged.

In each of the specialized journals having to do with cash, receivables, or payables, a column would be provided for accumulating the monthly entry in this account. When a $113.82 check is drawn for telephone expense, for example, the entry would be:

Telephone expense	$114	
Bank		$113.82
R. A. Account		.18

Both zeros would be omitted when recording the expense. This is important because it is the first step in the series of economies we seek to achieve.

In booking a $734.41 sale costing $607.20, the entry would be:

Account Receivable	$734.41	
R. A. Account		$ .41
Sales		734
Cost of Sales	607	
Inventory		607

Thus, three of the four entries normally involving cents will not deal with them at all. And it might bear repeating that the abbreviated entries for sales and cost of sales are the ones which are usually the subject of the furthest analysis. In other words, work is being saved in an area where it really counts. In a month's time the net total of the rounding adjustment column in any of these special journals should be practically zero, especially when compared to the total amount traversing the book. And the relative size of the balance in the rounding adjustment account will tend to diminish even further when entries from all journals are posted.

Booking of accruals and expirations could be planned in such a way that at least 90 per cent of them would be expressed to the nearest dollar as to both the debit *and* the credit, making it unnecessary to resort to the rounding adjustment account except at the beginning or end. For instance, when an insurance policy is purchased, it could be entered as a deferred asset at the nearest-dollar figure, letting the expiration schedule be arranged so that the periodic expirations will be in round-dollar amounts, though not necessarily equal.

The same principle could be applied, with even more justification, to the depreciation of fixed assets. When purchased, they would be filtered through the rounding adjustment account and entered at their nearest-dollar figure. In case of a fixed asset, the amortization rate is usually determined in contemplation of some value remaining at the end of the estimated life. The presence of two highly uncertain factors—length of life and residual value—in the computation of the rate makes the figure very inexact; it is idle to

ascribe nearest-cent accuracy to it in any event.

With regard to cost accounting, the writer is not contending that *unit* costs should be improperly restricted in the refinement of their expression. Generally, the extent of this refinement should be sufficient to provide a reliable nearest-dollar product when multiplied by a typical physical quantity with which it is usually associated.

Entries transferring inventories from stage to stage, entries recording standard labor for a period, entries showing application of burden to work in process—all these and most others in the cost ledger may be expressed to the nearest dollar without giving the bookkeeper cause for the slightest misgiving.

In cases of complete tie-in by means of mutual controlling accounts between the general ledger and the cost ledgers, there is no reason why the cost ledger cannot have a rounding adjustment account of its own through which it could pass all rough-edged entries, even if the general ledger is putting nearest-cent charges into its cost ledger controlling account. In this way the controlling account in the cost ledger could be kept in nearest-cent agreement with its counterpart in the general ledger, at the same time freeing the other cost ledger accounts of the need to carry pennies.

In some businesses, the even half dollar may appear a large number of times; if the half is either always "given" or always "taken," there will be an accumulating distortive effect upon the totals so that the adjustments cannot be relied upon to wash out. In such cases, it is suggested that the clerks be instructed to follow a rather common statistical technique of always rounding to the adjacent *even* dollar, never to the adjacent *odd* one. Thus, if the exact figure were $517.50, it would be called $518 rather than $517; and if the exact figure were $74.50 it would be called $74 rather than $75. This is on the sound average assumption that in the long run, one will encounter just as many even dollars followed by exactly 50 cents as he will odd numbers so followed. Thus, if he rounds each of the former cases downward, and each of the latter upward, he will have achieved complete compensation of his rounding adjustments.

BY RAYMOND J. BARBER, JR. *N.A.C.A. Bulletin*, September 1, 1947, p. 26:10.

INSURANCE...

"Other Insurance" Clauses

A PERSON or organization suffering a financial loss may possess two or more applicable insurance policies affording similar coverage, which probably were issued by two or more insurers. Such duplicate coverage may be deliberate or unintended, but its existence at times creates difficult legal problems.

Virtually all "other insurance" clauses in casualty policies are intended to create either "contributing" or "excess" insurance. In other words, a policy clause may seek to have other applicable insurance contribute in some proportion to a "joint loss" or it may attempt to have its own proceeds available only if and after such other insurance has been exhausted. However, there exist several variations of each of these two types, and any of the casualty clauses occasionally may conflict with different "other insurance" provisions in another type of policy. Duplicate coverage accordingly may occur in scores of different ways.

If these problems were always solved by a legalistic analysis of policy language, an ever-widening prospect of disputes and litigation would exist, with consequent disadvantage to insureds and insurers alike. It would be intolerable, for example, that insureds be left without protection because insurers admittedly liable in other respects wrangled over the amounts of their respective contributions. In recognition of this fact, there exist some inter-line and intra-line agreements among the more progressive insurers, providing that in various cases of duplicate coverage, whatever the policy provisions, the insured shall be protected and the loss divided between those "on the risk" in accordance with specified formulae. Even in the absence of such agreements, there is a marked tendency among carriers first to protect the insured and thereafter to negotiate or arbitrate their inter-company disputes, with litigation only an extreme resort.

In the absence of any policy provisions governing duplicate coverage, the general rule is that the insured may recover a proportionate part of the loss from each of the insurers, or he may recover the entire amount from any one of them, in which case such insurer may demand contribution from the others.

The contribution clause most frequently encountered in casualty insurance is the "Other Insurance" Condition found in, among others, the standard automobile and general liability policies:

> *Other Insurance.* If the insured has other insurance against a loss covered by this policy, the Company shall not be liable under this policy for a greater proportion of such loss than the applicable limit of liability stated in the declarations bears to the total applicable limit of liability of all valid and collectible insurance against such loss.

This clause has been held to have the same meaning as another frequently found in casualty policies, providing that in the event of "other insurance" the company shall be liable only for the proportion of a loss "which the sum hereby insured bears to the whole

amount of valid and collectible insurance." Versions of this provision occur in many burglary and plate glass policies.

The other contribution clause most frequently appearing in casualty policies is that found in the standard boiler and machinery contract and most explosion coverages. This provides that in the event of a "joint loss" the company shall be liable for:

> the proportion of the said joint loss that the amount independently payable under this policy on account of said loss (had no other insurance existed) bears to the combined total of the said amount and the amount independently payable under all other insurance on account of said loss (had there been no insurance under this policy).

This is a materially different rule, establishing as the criteria of contribution the amounts which normally would be payable under each policy on account of the particular loss (had no other insurance existed), rather than the limits of liability set forth in the respective declarations.

The "excess" type of "other insurance" clause is frequently employed in casualty insurance. A typical provision (used in the standard residence and outside theft form) is:

> The insurance afforded by this policy shall be excess insurance over any other valid and collectible insurance applicable to a loss covered hereunder; . . .

Similar provisions may be found in the "Comprehensive Dishonesty, Disappearance and Destruction," Valuable Papers, Money and Securities, Warehouseman's P. D. Liability, and Innkeepers Liability policies, as well as with respect to certain coverages or parts of coverages in the automobile and general liability policies.

The intent of such an excess insurance clause is clear and would, of course, be given effect in the event that the other applicable insurance policy contained no pertinent provision. Since, however, virtually all policies do provide for the possibility, the principal difficulties arise when such a clause conflicts with a similar or different clause in another policy. As in all cases of duplicate coverage, the courts consistently seek results which afford maximum protection to the insured.

When all policies involved are of the same nature, the New York Court of Appeals has held in effect that such clauses negative each other and all policies should contribute to the loss. While a literal application of the clauses would have resulted in all policies being only "excess" and thus none constituting primary insurance, the court declared that such a result would be untenable in principle.

When such clauses cancel each other, the insurers could be regarded as standing in positions analogous to those of co-sureties. When such assume unequal risks, they contribute to any loss covered by both in proportion to the amount of risk assumed by each, and by the weight of authority no distinction is made because the amount of loss is within the limits of liability of either bond.

At times two similar policies cover the same insured against the same hazard, one containing an excess insurance clause and the other a provision that the insurance does not apply if the insured has other insurance applicable to a loss. This frequently occurs when an insured is a named insured under his own policy and an additional or "omnibus" insured under another applicable policy. Under such circumstances the decisions do not form a consistent pattern.

Several courts have held that "excess insurance" is not "other valid insurance" within the meaning of a

clause stating that the insurance afforded by the policy does not apply if the insured has "other valid and collectible insurance" covering the loss. The policy containing such a clause accordingly is regarded as primary insurance, while the proceeds of the policy with the "excess" insurance clause are not available until such primary insurance has been exhausted.

Under similar circumstances other courts have reached the same result but by reasoning that the language of excess insurance clauses is much more specific in nature and narrowing in effect than clauses seeking to exclude coverage; that therefore excess insurance should not apply to the loss until exhaustion of the insurance which sought to exclude coverage by stating that it did not apply if the insured had other insurance covering the loss.

Still other courts have resolved the problem by holding liable the company which first issued the policy, whether that company's policy purported to be excess insurance or insurance which did not apply if the insured had other insurance covering the loss.

Finally, some courts have determined that the company which covers the "named" insured who is primarily responsible for the loss is the primary insurer, and must pay the loss whether its policy makes the insurance excess or inapplicable in case of other insurance.

By JAMES B. DONOVAN. *Journal of American Insurance*, October, 1947, p. 23:3.

Pictures Illustrate Coverage of New Insurance Policies

THE "small print" on insurance policies has long been a subject for jokes and frivolous comment. So has the language, bristling with "hereinbefore," "hereinafter," and other terms so dear to the legal mind.

Now comes the insurer, Allstate Insurance Company, with a new policy decorated with a series of drawings depicting possible pleasantries in the life of an automobilist.

An automobile burning, another car being attacked by thugs, a collision of two automobiles, a courtroom scene, a man being carried into a hospital—these are some of the scenes chosen by the artist to illustrate the hereinbefore-referred-to policy, and perhaps to remind the policyholder, hereinafter called the "insured," that a motorist's life is not a happy one without insurance!

—*American Business* 6/47

Premium Lure for Safer Driving

OLD American weakness for saving coupons for free premiums is utilized as a safety incentive in a new cooperative plan for trucking companies announced by American Trucking Assns., Inc., Washington, D. C. The plan suggests possibilities for other industries. Participating companies will award monthly "point" certificates to safe drivers, which they can accumulate to buy any of 900 merchandise items in an ATA catalog.

Average truck accident costs a company $160, leaving plenty of savings for employer after he has paid cost of premium program. And when a driver's wife begins saving points for a piece of merchandise, there is no way of knowing what the man will do to avoid coming home without his safe-driving point certificate at the month's end.

—*Modern Industry* 9/15/47

Trends in Industrial Health Administrative Practices

TO determine the current policies and procedures of industrial health departments, how they are administered, and their efficiency, the Industrial Hygiene Foundation surveyed 278 plants of varying sizes, involving many types of manufacturing and services in 33 different states, and including a population of 1,180,551 employees. Results of the survey follow:

1. Approximately 70 per cent of all organizations required preplacement and periodic examinations and also examinations on return to work after injury or illness; the smallest of the plants had a good record in this respect, as did the largest, though there were considerable variations among organizations of other sizes. Exit examinations at termination of employment were given in relatively few instances, except in the largest of the plants.

2. A dispensary service was provided in approximately 60 per cent of all groups, varying from 47 per cent in the smallest to 94 per cent in the largest.

3. Slightly over half the establishments rendered some type of industrial hygiene service, running as high as 88 per cent in the largest organizations. Safety and sanitation services were provided for in approximately 65 per cent of the concerns, the smallest and the largest plants showing the highest percentages of services provided. Dental services were provided in few instances and were limited almost entirely to emergency and prophylaxis service outside of the plants. There were in almost all classifications, however, some cases in which the part- or full-time services of dentists were provided. Instruction in health and safety was given in less than half the groups on the average, with slight variations in the different classifications.

4. With respect to intramural relationships, the health department reported directly to top management in approximately 36 per cent of all groups; the three divisions of health, safety, and personnel relations were on a par administratively in approximately 40 per cent of all groups; and the health department had the final word with respect to health problems in approximately 43 per cent of all groups.

5. With regard to records and reports, individual health records were kept in the medical department and made available only to the medical staff in approximately one-third of all organizations, with variations from 16 per cent in the small plants to 88 per cent in the largest; examination information was given to individual employees routinely for all groups in about 31 per cent of instances, and in about 20 per cent of instances on request only. Industrial hygiene information was given to individual employees mainly on request only on an average of 22 per cent, and in very few instances as a matter of routine. Regular reports were made by the industrial health departments in slightly over half of all organizations, as an average, running up to 91 per cent in the largest plants.

6. Cost figures varied greatly even in the plants of large corporations with fairly good centralized control. These variations were due mostly to differences in the arrangement and number of the rooms used and to original equipment, as well as personnel. There was also considerable variation in the cost figures of small plants, due mainly to the type of housing and equipment

originally provided and also to variations in personnel.

7. Finally, with reference to costs of service, the findings can be summarized as follows:

A. Small plants can install effective industrial health programs at reasonable cost.

B. The original investment for a small plant industrial health department usually will run from \$500 to \$3,000, the upkeep from \$300 to \$700 a month; for medium-sized plants from \$5,000 to \$10,000 original investment and upkeep from \$1,000 to \$3,000 a month; for a large plant, from \$10,000 to \$125,000 original investment and upkeep from \$2,000 to \$8,000 a month.

C. Per capita cost of industrial health work will run somewhere between \$10 and \$14 annually in most plants.

From an address by C. O. Sappington before the Eleventh Annual Meeting of the Industrial Hygiene Foundation of America.

Shipper's Insurer vs. Carrier's Insurer

THE historic controversy between shippers' and carriers' insurers as to who shall ultimately pay for the loss of merchandise while in the possession of the carriers cropped up again in a recent case decided by the South Carolina Supreme Court.

A firm of cotton merchants had delivered several bales of cotton to a common carrier for shipment to a customer. While in transit, the goods were damaged by fire.

The consignor had procured a fire policy insuring the goods while at stated locations as well as in transit. The carrier held a legal liability policy containing a Public Service Commissioner's endorsement for the protection of shippers. The consignor's insurer paid their loss and in their name brought an action in subrogation against the carrier and his insurer. The carrier's insurer contended that: (1) Shipper's insurance was concurrent with the carrier's and therefore, under the general law, the loss would be prorated by both insurers. (2) Even if the policies were not concurrent, the shipper's policy by its terms agreed to prorate a loss if there were other insurance on the property.

However, the Court declared: "It is clear that the carrier was liable to the shipper for the damage sustained to the shipment . . . The procurement of cargo insurance by the carrier was not optional but mandatory. It is required by statute . . . Under the terms of the endorsement required by the Public Service Commission . . . a direct liability by the insurer to the shipper is created, and such endorsement constitutes an unconditional and absolute promise by the insurer to pay the shipper any loss or damage to the cargo for which the carrier could be held liable . . . The shipper is under no obligation to the carrier to take out insurance on the cargo; and the freight is the same whether he does or does not insure . . . Therefore, since the carrier is ultimately solely responsible, without right of contribution, its insurer can have no greater right."

The Court concluded that the carrier's insurer was not entitled to contribution from the shipper's insurance for the further reason that the two insurances were not concurrent; it pointed out that the shipper's and carrier's policies covered neither the same interest nor the same casualty. The shipper's policy covered the peril of fire; the carrier's policy covered its legal liability. In the event of the destruction of the property, the shipper's insurer was absolutely liable, but the carrier's insurer would be liable in the event the destruction occurred under circumstances rendering the carrier responsible therefor. The Court distinguished this case from cases in which the bailee's insurance covered third parties' merchandise *directly;* in such cases both bailee and bailor insurances are concurrent.

As to the contention of the carrier's insurer that the shipper's policy specifically stipulated the prorating of losses where there was other insurance, the Court stated: "It is generally held that policy provisions of the character quoted apply only to cases where the insurance covers the same interest, and can have no application to insurance obtained upon another distinct insurable interest in the property."

—Harold S. Daynard in *Insurance Advocate* 8/9/47

Finances for a Boom

THE construction contract bond furnished by corporate surety has become an important part of our economic structure, because it protects against loss those interests which have the finances available to permit the construction industry to function.

The construction contract bond guarantees that the contractor will perform his work according to plans and specifications and pay the labor and material bills incurred in connection with the contract. The contractor appears as the principal in the bond, and the surety, as such, is bound with him to the owner, who is described as the obligee.

Upon the contractor's default the surety will indemnify the owner for his loss up to the penalty of the bond. The bond cannot be canceled and continues in force until the contract has been performed or is otherwise terminated. Bonds are required on all important contracts by the federal, state, and smaller government bodies and frequently by private interests.

In August, 1946, the Association of Casualty and Surety Companies released new forms of performance and payment bonds, to stimulate the use of bonds on private construction work. The new performance bond states that upon default of the contractor the surety will *"complete the contract"* or *procure a contractor to do so.* Prior to the issuance of this new bond, the surety did not assume this obligation.

The payment bond guarantees prompt payment to all claimants as defined therein, of all labor and material expenses incurred in performance of the contract.

Though the construction contract bond is the more important, another classification known as the supply bond should not be overlooked. It guarantees the furnishing of miscellaneous commodities readily obtained on the open market. This type of bond presents no special problems when written for established concerns.

The element of risk is always present in construction contract bond underwriting, and the hazards vary with the type of work involved. To illustrate, poor underground conditions at times are difficult to overcome and, therefore, increase unexpectedly the costs of foundations needed to support large building structures. Flood waters destroy partially constructed engineering projects and present obstacles with which only the most skillful and experienced engineers can cope.

These problems and others such as scarcity of material, lack of skilled help, and poor production resulting from uncooperative labor, all have a bearing on the completion of any contract. With a bond signed on behalf of the contractor by corporate surety, the owner for whom the work is to be performed is relieved of the risk. Because of the guarantee to pay bills to subcontractors, dealers, and manufacturers who furnish work and materials, better price quotations may be quoted by them to the contractor. In turn, this permits the contractor to make a more conservative price to the owner.

Applicants for the construction contract bond are carefully selected. In order to qualify, they must possess integrity, with willingness to perform their work in accordance with the plans and specifications; experience in the particular type of work, plus a competent staff of employees; responsibility in the form of current resources and credit with which to finance the contract. Ownership of good, suitable equipment is also essential.

No hard and fast rules are made as

to the amount of resources an applicant must have in order to be eligible for bond. He must, however, be able to show a good net current position sufficient to finance the contract under consideration and any other contracts in the course of completion. In analyzing the net current worth, credit is allowed for cash, good and readily marketable securities, good accounts receivable, and some materials. Against these are charged current obligations. Consideration is finally given to such secondary assets as real estate holdings, other assets and credit facilities available.

Nothing is taken for granted in contract bond underwriting. In addition to confirmation of the contractor's qualifications, the contract is reviewed to detect any unusual provisions which would increase the risk normally involved. For example, the contract may require completion of a large project within a very short period of time and make the contractor liable to pay heavy liquidated damages for each day beyond the allotted time.

To be reasonably sure that a contractor has made a price for which he can do the work with some profit, his price is compared with competitive bids. If the contractor's price is close to his competitors' figures, the inference is that he has made a sound estimate of the costs. A figure 10 per cent or more below the next higher bidder is considered unfavorably, and an explanation is required to justify, if possible, the difference.

By August Westphal. *The Casualty & Surety Journal,* October, 1947, p. 17:5.

Vesting in Retirement Plans

PRACTICALLY all retirement plans contain some provision for "vesting." The term "vesting" means that the employer gives full or partial rights to benefits provided by employer money which have accrued to employees who leave service prior to normal retirement date. Vesting may be predicated upon (a) minimum attained age, or (b) minimum service with the employer, or (c) minimum years of membership in the plan—or a combination of these factors.

The Bureau of Internal Revenue has released some interesting figures on vesting in retirement plans. Of the more than 9,000 plans approved up to August, 1946, 15.9 per cent provided full and immediate vesting, 72.9 per cent partial vesting, and only 11.2 per cent no vesting.

The vested reserves of the employer are paid in cash only in cases where the amounts of money involved are too small to provide worthwhile paid-up benefits.

—*The TPF&C Letter* (Towers, Perrin, Forster & Crosby, Inc., Philadelphia)

• UNDERWRITING AND INVESTMENT results over a 10-year period of 100 leading casualty, surety, and miscellaneous insurance companies show that these firms realized a total net profit of $619,868,803 on earned premiums of $9,446,278,961, for a ratio of 6.6 per cent. However, a further breakdown shows that 80 multiple writing companies showed an underwriting profit of 5.8 per cent on earned premiums of $8,375,934,586, and 20 other type companies showed underwriting profits of 12.5 per cent on earned premiums of $1,070,344,375. A gain of $446,404,930 was made through investments, making a total gain from both underwriting and investments of $1,066,273,733. Against these earnings, the companies paid out $469,376,596 in dividends to stockholders and increased their reserves by $172,153,986, making a net increase to surplus for the decade of $424,743,151.

—*The Spectator* 10/9/47

THE AMERICAN MANAGEMENT ASSOCIATION

The American Management Association is composed of industrial and commercial companies and executives interested in modern management. The AMA makes no profit, does no lobbying, and advances no propaganda. Its interests are solely the solution of current business problems.

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The AMA Information and Research Department places at the command of every member company a trained research staff on management problems. In addition, the AMA maintains a modern, up-to-date library of management books and business publications.

AMA Periodicals

THE MANAGEMENT REVIEW (monthly) contains digests of articles on management appearing in over 400 publications, and brief reviews of current business books. It enables a busy man to survey all current topics of interest to him in less than 30 minutes. PERSONNEL (bi-monthly) publishes articles on employee selection, training, compensation, and the like. MANAGEMENT NEWS (monthly) presents news of current developments in the field of management and includes a summarized analysis of the forecasts of seven of the foremost business services.

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